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Ways and Methods of Managing Reduction of Unfinished Construction Projects in Industry

E.V. Gavrilin^a, A.E. Gavrilin^b^a Federal State Unitary Enterprise "Directorate for Investment Activities", Moscow, Russia^b Kutafin Moscow State Law University (MSAL), Moscow, Russia

ABSTRACT

The paper depicts ways and means of solving one of the key problems that the Government of the Russian Federation has identified as a priority in 2020 and for subsequent years. This includes the reduction of unfinished construction projects (UCP), the financing of the construction of which was carried out at the expense of the federal budget, in particular, industrial facilities without attracting additional budget allocations. The purpose of the work is to create a management mechanism that allows in a short time to involve in the economic turnover of UCP, the construction of which was carried out at the expense of the federal budget. Within the framework of existing regulatory and legislative rules and restrictions, the mechanism comprises methods that allow organizing the transfer of property to another level of ownership, privatization, completion of construction at the expense of extra-budgetary sources, as well as write-off and disposal for UCP. The proposed ways and methods of management make it possible to involve the maximum number of UCP in the economic turnover in the shortest possible time. Federally owned objects that have not aroused interest in the regions and that lack investment attractiveness for private investors should be completed at the expense of the federal budget, or written-off and disposed of. The authors used the described methods in fulfilling the instructions of the Government of the Russian Federation to reduce the UCP and allowed to increase several times the number of involved projects compared to previous periods.

Keywords: unfinished construction projects (UCP); inventory of UCP; federal budget funds; state treasury of the Russian Federation; transfer to another level of ownership; privatization; write-off; disposal; involvement in economic turnover

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INTRODUCTION

Reduction in the volume and number of unfinished construction projects (UCP) is an important national task, requiring the adoption systemic decision-making at all levels of government and management.

Problems associated with UCP, in particular the concept [1], their legal regime [2–17], registration in Unified State Register of Real Estate [15, 18–20], taxation [21], registration of sites under them [22–24] etc., is widely shared in the international scientific literature. However, the problem of establishing a management mechanism is not addressed at all, to attract involvement in economic turnover of unfinished construction project in a short time, the construction of which was carried out at the expense of the federal budget.

Instructions from the President of the Russian Federation and the Government of the Russian Federation was defined tasks to ensure the inventory unfinished construction projects, not included in the targeted investment program, and development of information resource, containing complete data on specified objects, and the inventory of those of them whose cost exceeds 10 mln rub., in the construction of which budget funds were used at all levels.

Information about unfinished construction projects is formed in the State automated information system “Management”¹ based on data from mandatory financial statements, which is represented in of the Federal Treasury from the main federal budget holders.

According to these data, as at 1 January 2019, the total number of UCP, as reflected in the balance sheet of the general managers of the federal budget, was about 13 000.² Of them (*fig. 1*):

- 26% sites were at the design stage or approval of design and estimate documentation, on which construction hasn’t even started;
- 21% were under construction;
- 22% was registration of putting into operation;
- 15% construction was suspended;
- 13% were at another stage;
- 3% abandoned.

For 2019, the total number of sites increased by 5.6%.

The problem of unfinished construction Accounts Chamber of the Russian Federation gives the utmost attention. As a result of the verification activities carried out in 2019, it was noted, that the assignments of President and Government of the Russian Federation, providing systematic measures to reduce the volume and quantity of UCP, have not been fully implemented and the situation in this area has not changed radically: the number of “abandoned” objects and “long-term construction” is not systematically reduced, it was also not possible to prevent the appearance of new problem objects.

According to the auditor of Accounts Chamber S. Yu. Orlova, the number of contractions UCP at the expense of regional budgets in 2019 was equal to 3.4 thous. — this is more than in 2018, and the number of “abandoned” was 4.3 thous., which is also higher than the previous year.³

Along with the financial accounting forms unfinished construction, consolidated by the Federal Treasury for the Russian Federation, UCP accounting is carried out separately by the Federal State Statistics Service, the Federal Agency for State Property Management, the Federal Registration Service and is reflected in departmental information systems.

¹ State automated information system “Management”. URL: <https://gasu.gov.ru/>

² Bulletin of the Accounting Chamber of the Russian Federation, 2020. No. 11(276). Unfinished construction. URL: <https://ach.gov.ru/statements/byulleten-schetnoy-palaty-11-276-2020-g>

³ Bulletin of the Accounting Chamber of the Russian Federation, 2020. No. 11(276). Unfinished construction. URL: <https://ach.gov.ru/statements/byulleten-schetnoy-palaty-11-276-2020-g>

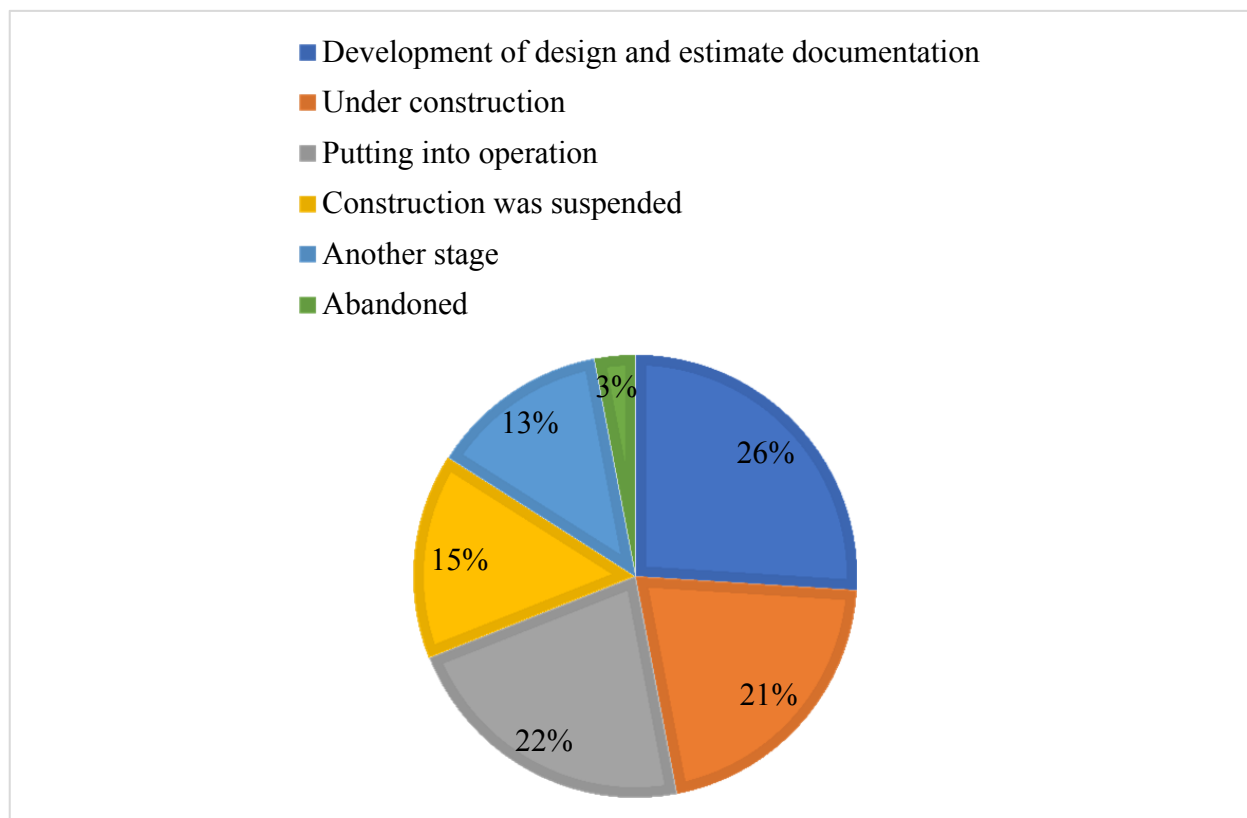


Fig. 1. UCP as of January 1, 2019

Source: developed by the authors.

CHARACTERISTIC OF UNFINISHED CONSTRUCTION PROJECTS IN INDUSTRY

UCP can be divided into several groups. First group — projects that are at various stages of construction continue to be funded and high degree of probability will be built on time. Second group — projects on which funds were spent, design and costing documentation developed, design and survey work carried out, but they were not built and there are no sites as such. There is a problem, either write-off costs incurred or start construction. Third group — these are projects that have been started but frozen, which are not financed from the federal budget. They were listed in Register of Federal Property, conducted within the framework of Order of the Government of the Russian Federation from 16 July 2007

No. 447 “On improving accounting of Federal Property”.⁴ The distinctive feature of the third group of objects is that they are accounted for in the Register of Federal Property provided that they are recognized by UCP and have been registered in Unified State Register of Real Estate. Until that time they are capital investments and shall not be recorded in the above-mentioned Register. It should be noted, however, that the criteria that would clearly define which objects could be registered as real estate in terms of readiness, availability of funding, etc., are not defined by law.

In accordance with the instructions of the President of the Russian Federation and the

⁴ Order of the Government of the Russian Federation from 16 July 2007 No. 447 “On improving accounting of Federal Property”. URL: http://www.consultant.ru/document/cons_doc_LAW_70561/

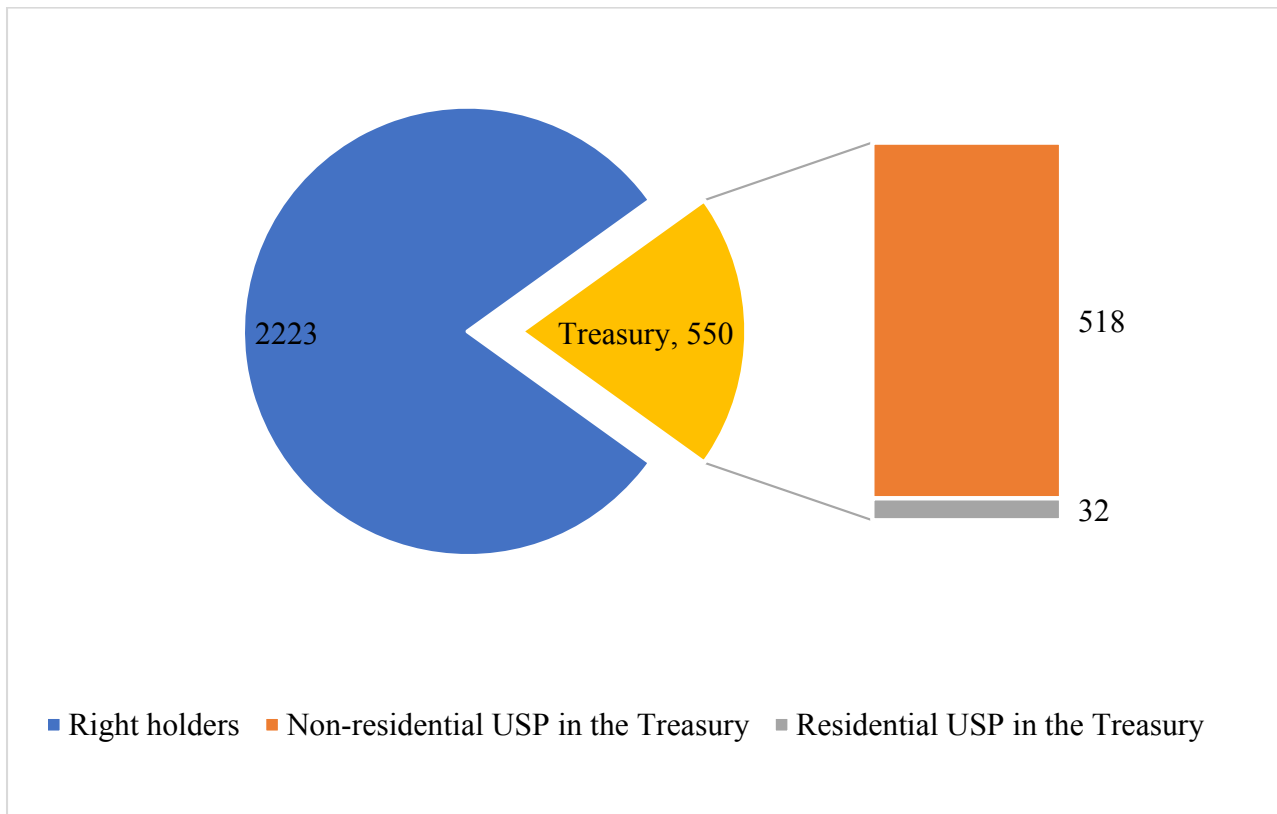


Fig. 2. UCP, contained in the open part of the Register of Federal Property, as of the beginning of 2020

Source: developed by the authors.

Government of the Russian Federation, 139 projects were involved in the economic turnover of Register of Federal Property in the period from 2015 to 2019. Of which: 45% were put into operation, 34% were written-off, 18% transferred to another level of ownership, 2% is deposited into the authorized capital of joint-stock companies holding a State share, 0.7% is privatized.

As of the beginning of 2020, the public part of the Registry was taken into account about 2773 UCP, of which:

2223 — reserved of one or any other right for right holders;

550 — as part of State Treasury of the Russian Federation (in 193 of them construction was stopped until 2000); the majority of these objects, namely 518, belong to non-residential type, 32 — residential.

WAYS AND METHODS TO REDUCE THE NUMBER OF UNFINISHED CONSTRUCTION PROJECTS IN INDUSTRY

One of the key challenges, which the Government of the Russian Federation has identified as priorities in 2020 and beyond, was reducing the amount of UCP, whose construction was financed from the federal budget, in particular industrial facilities, without the involvement additional budgetary allocations.

This can be achieved by completing the construction from domestic sources of federal state unitary enterprises, state-owned enterprises and federal public service, or the respective budgets (constituent entities of the Russian Federation and municipalities) with transfer to another level of ownership, write-off, disposal and further use of the vacated site

for regional needs, as well as privatization of UCP.

According to Methodic recommendation for formation of target-function about unfinished construction projects, its preparation, approval of departmental plans to reduce their volume and quantity.⁵ In addition to such targeted functions, as the completion of construction (reconstruction, technical re-equipment), conservation of objects, privatization, and transfer of ownership to the constituent entities of the Russian Federation or to municipal ownership, transfer to concession, write-off and demolition, provided for the acceptance of the UCP in the state treasury.

This, in our view, cannot be accepted, as the transfer of objects to the treasury does not solve, but exacerbates the problem of reducing the number of UCP. Since, if the ministries and departments had some target setting for their construction, the transfer to the treasury would conceal the true state of affairs, and the Federal Agency for State Property Management, which manages the Treasury facilities, there is no financing for completion of the construction and view the target function of the target object.

On the other hand, UCP transfer, under the treasury of the Russian Federation, to federal agencies and organizations that had previously construction, will have a positive impact on accountability for past decisions and prevent unwarranted future investments.

In order to solve the task of reducing the UCP, in the first stage was necessary to simultaneously obtain information about expressions of interest from heads of entities and municipalities that ownership of objects federally owned, and intention of the Federal executive authorities to either complete the UCP

with funds from domestic sources or transfer it to another level of ownership.

As a result of the research done at this stage, we get four UCP arrays. The first includes facilities that the federal executive authorities are prepared to transfer to another level of ownership, and subjects — accept. Second — those that have not aroused interest and are subject to or sold through inclusion in the Forecast Plan (Program) of privatization, or implementation with the involvement of the State Corporation “DOM.RF”. Third — is the UCP, which the federal authorities plan to complete from their own sources. And the fourth — is facilities that can only be written-off and disposed of.

OPERATION ALGORITHM TO REDUCE THE NUMBER OF UCP

Based on the information received, operation algorithm to reduce the number of UCP was created, which is a sequence of actions aimed at achieving on their objectives.

In accordance with existing legislation, transfer of unfinished construction projects on a different level of ownership possible in two ways: first — through harmonizing with the federal executive authorities concerned (right holders of UCP) and edition of an Order of the Government of the Russian Federation; second — through the transmission mechanism, envisaged by Federal Law from 24 July 2008 No. 161 “On facilitation of housing construction”.⁶

In this Federal Law, the Russian Federation response to the request of the head of one of the subjects and the agreement of the Federal executive authority (right holders of UCP), based on the decision of the Government Commission for housing development and land use efficiency assessments, which owned

⁵ Letter from the Ministry of Economic Development of the Russian Federation from 06 March 2017 No. 5575-EE/Д17и. URL: <https://nkrfkod.ru/zakonodatelstvo/pismo-minekonomrazvitiya-rossii-ot-06032017-n-5575-eed17i/>

⁶ Federal Law from 24 July 2008 No. 161 “On facilitation of housing construction”. URL: http://www.consultant.ru/document/cons_doc_LAW_78700/

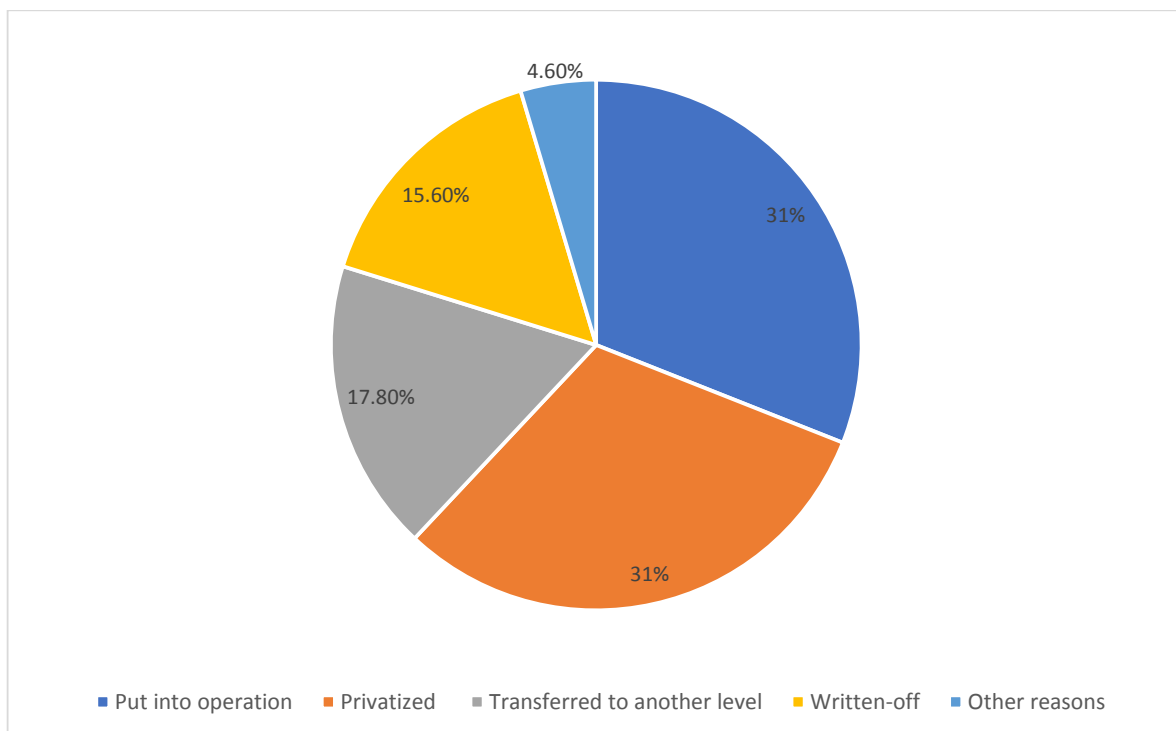


Fig. 3. Results on reducing the number of UCP contained in the open part of the Register of Federal Property in 2020

Source: developed by the authors.

by the Russian Federation, with JSC “DOM.RF” as a united development institution; they are transfer for three years to the state authorities of the constituent entities of the Russian Federation the exercise of authority to manage and order the UCP, including demolition and reconstruction of real estate objects.

UCP, which has not aroused the interest of the constituent entities of the Russian Federation and which the federal authorities do not plan to operate, are subject to either privatization, write-off or disposal.

Privatization of UCP is possible in two ways.

1. Introduction of privatization under the existing procedure into the Forecast Plan (Programme) with subsequent sale at auction. In the absence of investment demand, the facility is implemented first by the method of public offer, which provides a step-by-step reduction of the price to half of its original value, and then, in the absence of interest,

without announcing the price: it is appointed by the applicants themselves, and the winner is the investor who has offered the highest price.

2. Implementation with State Corporation “DOM.RF”. In this case, the Government Commission for housing development and land use efficiency assessments transfers UCP to JSC “DOM.RF”, as a united development institution, for the subsequent sale and use of the funds received for housing development.

And, for writing off and disposing of unfinished construction projects rights holders without additional budget financing need, firstly, they should be on cadastral records (otherwise funds are needed for cadastral registration); secondly, that the cost of their disposal be covered by the possible return of steel structures and other materials for secondary use. It is clear that this is only possible if the facilities are either in the initial

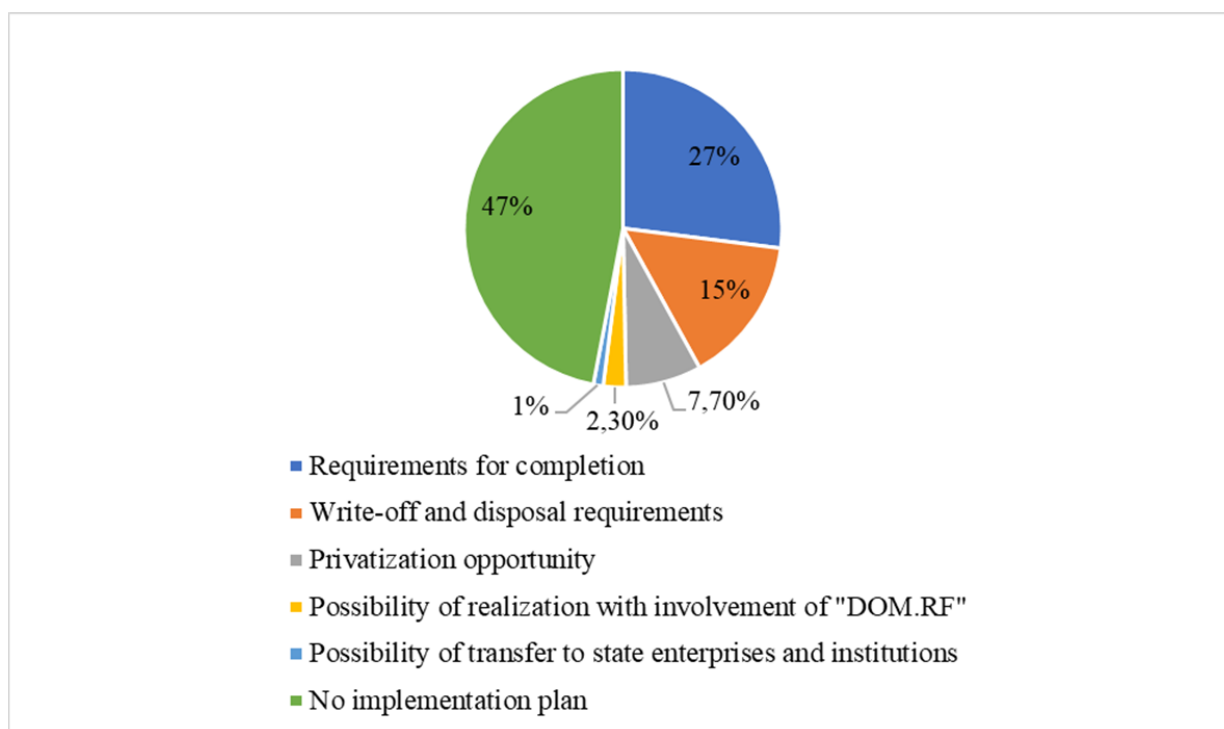


Fig. 4. Directions for further work on reducing the number of UCP

Source: developed by the authors.

stages of construction or in the preparatory stages.

As a result of the work carried out in 2020, 614 UCP (including 186 Treasury objects) were removed from the original list and subject to removal from or change of status in the Federal Property Register (from the “unfinished construction projects” to the “capital construction projects”). Of these, 31% of the UCP put into operation, 31% privatized, 17.8% transferred to another level of ownership, including by orders of the Government of the Russian Federation, 15.6% written-off, abandoned for other reasons — 4.6% (fig. 3).

Directions for further work to reduce the number of UCP remaining in the Registry are displayed on Fig.4. In relation to these objects, a survey of right holders showed that only 27% of them still need to be completed and put into operation, since their functioning will serve to solve urgent socio-economic and infrastructural state tasks.

In case of lack of budget financing the construction must be completed either economically or with the assistance of the Bank of Russia using accounts of repurchase agreement (REPO) secured by UCP at their market value. [17] It must be clearly understood that if construction is not completed, the facilities will inevitably collapse over time and there will be a need for their disposal, which can be much more costly, not to mention the loss of the facility itself. 15% of them — are subject to write-off and disposal. Can be implemented: 7.7% (having investment attractiveness) by entering into the Forecast Plan (Program) of privatization with subsequent sale at auction or in other ways provided for by the legislation; 2.3% — with JSC “DOM.RF”. Other state-owned enterprises and institutions ready to accept about 1% of UCP. For the remaining 47%, there is no indication of further action to reduce them and project should continue.

Regions of the Russian Federation have shown interest in taking ownership (subjects or municipal) of 9.2% of objects of construction in progress. Unfortunately, the process of their transfer is rather lengthy, as it requires a large number of documents and agreements. In the scientific literature, it is proposed to extend to UCP the legal regime of real estate turnover, which have been registered in Unified State Register of the Real Estate (USRRE). [12, 14, 25–27] In theory, unscrupulous investors have the possibility of abuse, for example, in the registration of rights to land under real estate, but that there is a need for such a change in the UCP, in federal ownership, and the authorities of the constituent entities of the Russian Federation and municipalities showed interest in completing, there is no doubt. This would allow the transfer of some 200 additional sites in 2020, which federal institutions and organizations are prepared to transfer to another level of ownership, and regions – to accept and complete on the basis of orders of the Federal Agency for State Property Management and its territorial bodies, not government documents. As UCP are destroyed over time, speeding up the transfer procedure will have an undeniable economic effect.

CONCLUSION

The practical use of the proposed mechanism to reduce the number of UCP allows us to draw a number of important conclusions. Theoretically, all UCP, which are not interested in completing the construction of public authorities and

organizations, can be implemented through the Forecast Plan (Program) of privatization at tenders, by public offering and without announcement of price. However, there is a concern that if acquired by private investors for relatively little money, they will remain the same when the ownership changes, i.e. they will not be completed or disposed of.

Separately there were several UCP, which are illiquid, and their write-off and disposal will still require considerable budgetary resources. These include, for example, those built on border sections, so that their further use is strictly limited. Or industrial facilities on a high state of readiness, but built on sites far from urban and village infrastructure. For private investors, their use is unprofitable. Finally, also almost unfinished construction projects, some of which, if completed, can only be federally owned, and disposal is costly, so their commercial use is excluded.

In order to prevent an increase in the number of abandoned UCP of the Ministry of Construction of the Russian Federation in the future is carried out:

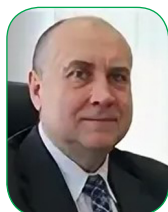
- reorientation to a single state customer for construction;
- consideration of transition to a system of management of the life cycle of capital construction objects, providing for their unified cross-cutting codification in the territory of the Russian Federation;
- creation of a regulatory and technical basis for managing the life cycle of capital construction objects.

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ABOUT THE AUTHORS



Evgeny V. Gavrilin — Dr. Sci. (Econ.), Director for Development of the Federal State Unitary Enterprise “Directorate for Investment Activities”, Moscow, Russia
<https://orcid.org/0000-0002-7621-2785>
evgavrilin@mail.ru



Alexander E. Gavrilin — master student, Institute of Private Law of Kutafin Moscow State Law University (MSAL), Moscow, Russia
<https://orcid.org/0000-0002-7534-1681>
gavrilin.msal@gmail.com

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